

# **Navigating The Rapids**

Redmond's Financial Strategy  
A six-year long-range financial strategy

**November 22, 2005**

## Foreword

### *What is a long-range financial strategy?*

This plan is intended to provide a framework within in which the Redmond City Council can make budget decisions over the next several budget cycles. But just as importantly, it encourages a deeper understanding of the City of Redmond revenue choices and the service commitments, implied or otherwise, that we make to our citizens.

### *How does the development of this financial strategy help us?*

The City Council is shifting the manner in which we think about and approve the Redmond budget. The proposed paradigm shift moves us from a process that focuses on cost to one that focuses on that which matter most to our citizens – results.

### *Why should we change the budgeting paradigm?*

Our fiscal environment is ever changing. We are in a period of continued budget challenges characterized by an unrelenting series of cost drivers. Within this environment, our current budget model, budgeting for cost, leads to a spending profile that provides existing programs and services – without the financial resources to support those services or the mechanisms to easily explain the need for new resources.

The fiscal environment has changed significantly since the budget for cost model was developed. In the days of its development, it was satisfactory to explain that the city spent money on police, fire, water, sewer, parks and roads. Each sector and its outcomes were obvious and understood by most.

Today even the simple is complex. Take for instance the Fire Department whose mission has changed such that it is frequently referred to as Emergency Response. Or, take as another example the role of an Information Services function, which in an era gone by, did not even exist. Yet we continue to discuss expenditures without fully appreciating the impacts and results these services provide.

### *What are the guiding philosophies for this long-range financial strategy?*

1. Acknowledge the relationships between taxes, the economics of businesses and individuals, perceptions, and the services delivered to the community.
2. Establish a contextual shift in the City of Redmond's financial planning towards service priorities in support of citizen expectations.
3. Define the priorities for services to be delivered from the perspective of the service recipient.

With these issues and philosophies in mind, the Redmond City Council in partnership with the Mayor and City's Strategic Leadership Team (department Directors), has developed this long-range financial strategy. It is intended to be a working framework document and subject to frequent discussion with at least annual review.

## **Navigating the Rapids**

### **Using a Strategic Financial Plan to Guide Redmond's Financial Decisions**

Imagine that managing Redmond's financial future is similar to successfully navigating a white river. Like a class four river the City's financial future will be characterized by long stretches of placid water each preceded and followed by a rock impeded rapid. For the city, those rocks can be named:

- The rising cost of health care
- Environmental issues. Think salmon and link that to global warming
- Homeland security
- Tax revolt coupled with demands for more services
- Inadequate antiquated state revenue options
- Service level declines
- An aging infrastructure
- Devolution by federal and state governments
- Unfunded mandates
- Downturn in development activity
- Inflation/recession
- A growing population
- Growing diversity in cultural, economic, nationality
- Underfunded retirement obligations
- Changing crime (high tech) fueled by drug/alcohol abuse
- An aging population
- Imbalance of housing and jobs

The task is to map out our strategy for navigating the rapids ahead.

## **Chapter I     Our Vision about the Community and its Government**

In the preparation of this strategic plan the City Council agreed to a common vision for the City of Redmond after reviewing prior vision statements found in the Comprehensive Land Use Plan, strategic plans including Council Pillars, Budget Strategic Directions, Strategic Financial Plan and strategies developed during the 2004 Council retreat and additional concepts from the March 2005, strategic, as well as planning and implementation documents including the Transportation Master Plan and Parks, Recreation, and Open space Plan.

### **Redmond City Government Strategic Vision Statement**

Redmond is a city that maintains community at the heart of every decision and action. This principle drives us to understand and deliver the high quality of services, facilities and infrastructure our citizens, businesses, and visitors desire. We further meet these expectations through both innovation and fiscal responsibility in such a manner as to enhance our community's sustainability, economic vitality, and environmental stewardship, while promoting a safe and beautiful community where our diverse parts come together as Redmond. Through these actions and focus, we deliver on our belief that "together we create a community of good neighbors."

## **Chapter II The Current Situation**

The purpose of this section is to define the existing financial situation and by doing so, establish the existence of a gap between revenues and expenditures.

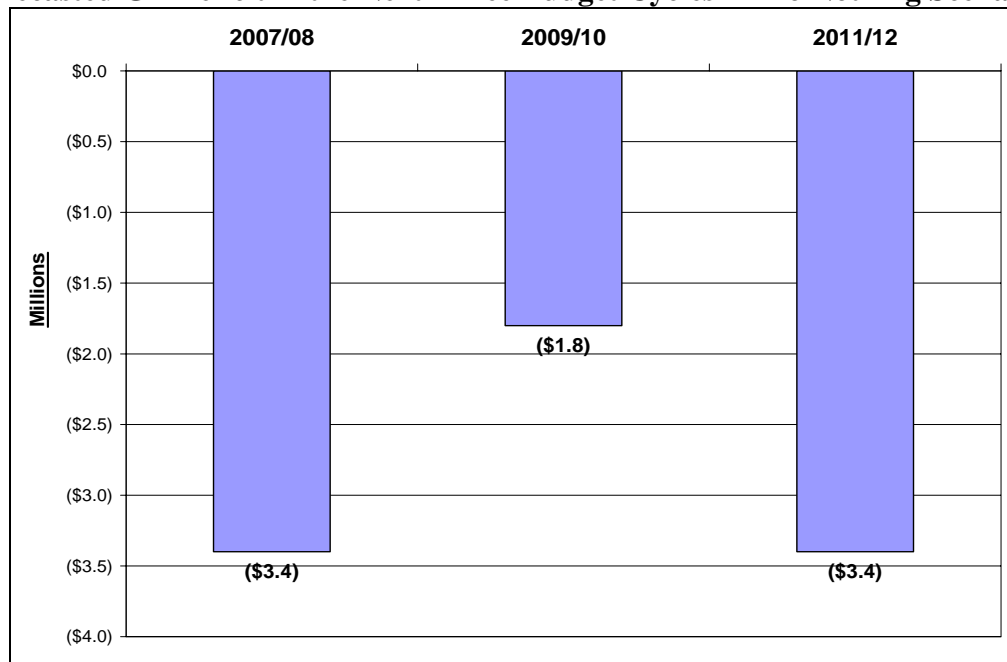
In July 2004, the Mayor requested that the City Council place a levy lid lift on the September 2004 ballot to increase revenues. The Council response was to direct the administration to develop a status quo budget and use up to \$3 million in cash in the Economic Contingency to balance the budget.

In the fall 2004-budget deliberations, the Mayor proposed tax increases in the utility tax and the business license fees. The Council adopted partial increases to both and used \$1.7 million to balance the budget with the commitment that a long-term financial plan would be developed in 2005.

The tax increases adopted in the 2005/06 budget were a 1% increase in property tax, a .03% increase in the utility tax for a rate of 5.8% and a \$15.75 increase per FTE in the Business Licenses fees.

The following chart shows the forecasted general fund gaps for the next three budget cycles. This assumes no annual 1% property tax increase, lower projections for telephone utility tax, and restoring the fund balance to 10% of expenditures. This gap represents today's situation, not future stressors on the City's financial well being.

**Forecasted GF Deficit in the Next Three Budget Cycles – “Do Nothing Scenario”**

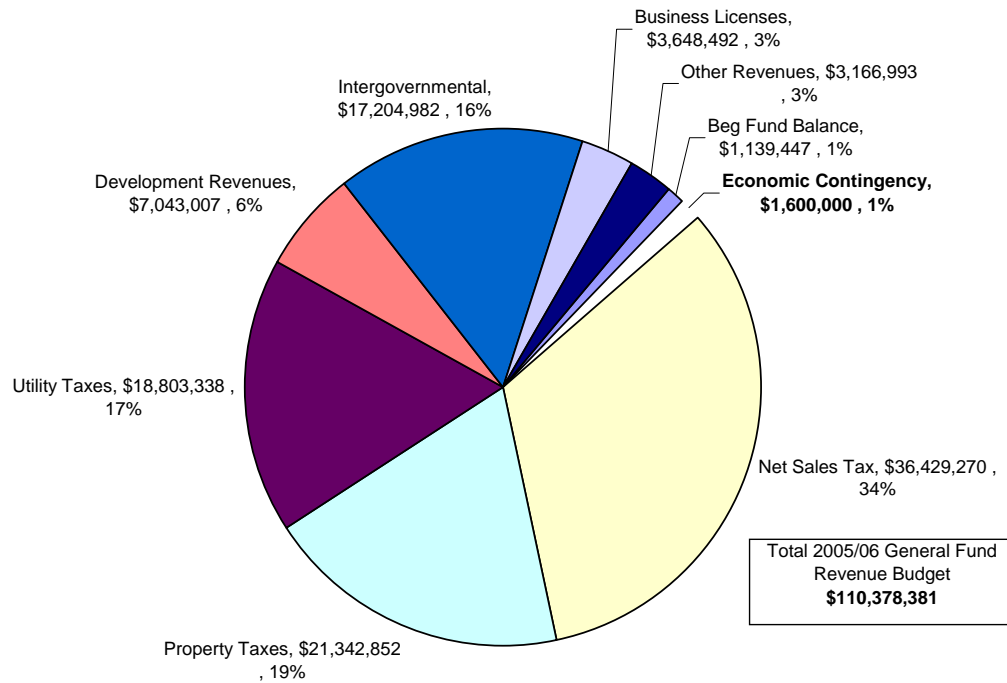


Source: Finance Department, June 28, 2005 Presentation, Page 11

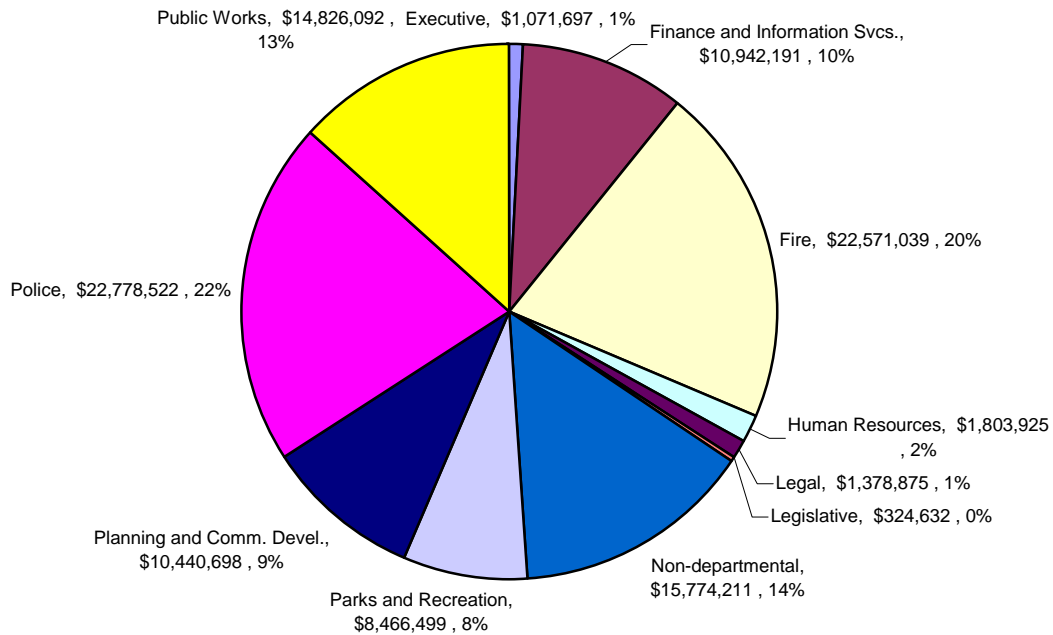
### **A. Existing Revenues**

The chart below shows the current sources of revenues and their percentage of the general fund budget.

### 2005/06 Budgeted GF Revenue



### 2005/2006 Budgeted GF Expenditures



### B. Current Service Levels

The definition of service levels in the 2005/06 budget were never agreed to between the Council and the administration. The Mayor reported that the budget submitted was a status quo budget with the only addition a citywide records system. Subsequent to the adoption of this strategic financial plan, a process will be developed to identify and measure current and proposed service levels.

## **Chapter III Revenues**

### **A. Philosophy**

In addition to established financial policies related to City revenues, the Council has developed supplemental philosophy related to City revenues over the past two years. These philosophies are intrinsic in Council deliberations related to City revenues and are a foundation for establishing future and revised fiscal / revenue policy.

- **Assess and maintain fair, equitable and stable sources of revenue**  
This direction comes out of the 2004 Council Objectives. Given changes in State law the last 10 years, the City needs to look for stable and progressive tax streams.
- **Prioritize less volatile revenues sources over revenues more sensitive to changes in the economic climate, such as sales tax and sales tax on construction.**  
Issues of volatility should be reflected in the decision making process, whereas sources with a low volatility rating prioritized.
- **The “total” tax bill should be considered when increasing rates**  
When assessing impacts to taxpayers, increases in non-general fund rates need to be included in the total cost. Additionally, broader tax and fee obligations should be considered, recognizing that Redmond has little control of these assessments.
- **Limits to Taxation**  
There is an acknowledgement that there is a limit to total revenues available to operate Redmond. The residents are pressured by an increasing cost of living from many factors, plus increases in taxes from other levels of government. There are an increasing number of Redmond residents who are living on fixed income who cannot afford significant increases in taxes.  
  
There is a risk that increasing the cost of doing business in Redmond will cause businesses to move or shift some of their functions to other locations. If tax and fee increases are too significant, the result could cause a net decrease in revenue.
- **Voters should approve tax increases when the proposed increase is above a historical rate**  
The Council assumes that the citizens are willing to pay a certain, but yet unknown, rate for services. Increases to the tax rate that appear beyond the normal range need to go to the voters for approval.

### B. B. Revenue Options Available

The table below lists the major revenue options available to the City without a change to State law.

Revenue Source	Current Rate	Authority Limit	Fiscal Value (annual)	Index-able	Decision Maker	Volatility Rating
Property Tax*	\$1.32** per \$1,000	1% /year	<div> <div></div> <div>\$120,000/1%</div> <div>\$930,000/\$0.10</div> </div>	No	Council	Low
Banked Capacity*		\$1.4M		No	Council	Low
Limited Duration Levy Lid Increase (Public Vote)*		\$3.10 /\$1,000		Yes	Voters	Low
General Levy Lid Increase (Public Vote)*		\$3.10 /\$1,000		No	Voters	Low
Utility Tax	5.80%	6.00%	\$136,200/0.1%	No	Council	Low
Tax on City Utilities	0.00%	6.00%	\$255,000/0.1%	No	Council	Low
Sales Taxes	1%	1%	NA	No	Council	High
Gross Receipts	0%	0.20%	\$8.5M/0.1%	Yes	Council	Medium
Business License	\$28.25	No Limit	<div> <div></div> <div>\$64,300/\$1</div> </div>	Yes	Council	Medium
Business Transportation Tax	\$55.00	No Limit		Yes	Council	Medium
Development Review Fees	~50% Cost Recovery	No Limit	\$300,000/10%	Yes	Council	High

\* Computed fiscal value based on assessed valuation; Value is the same under all property tax options

\*\* base rate; \$1.58 with excess levy



### C. Balancing Options Available

At times it is very difficult to contemplate the basic question that this Financial Strategy is destined to answer – “Can we achieve our vision with the existing revenue” It is difficult because the vision is broad and far reaching, describing our community more from the heart and soul than by the services delivered. However, it is clear that our vision requires us to understand and deliver the high quality of services, facilities and infrastructure our citizens and visitors desire.

In preparing for this Financial Strategy, the Council, Mayor and the Strategic Leadership team have together glimpsed the future through a variety of analytical processes, all with the goal of understanding the alignment between projected revenue and services level. As of mid August 2005, a definitive answer does not exist. We know and agree that a gap between current revenues and expenditures does exist, or at least will exist after the current biennium. We also know intuitively, or otherwise, that in a do nothing scenario the cost of services will grow and revenues in real dollars will shrink. The result by definition is a growing gap between revenues and cost of city services, a gap that will not allow Redmond to achieve the vision with existing revenues.

Recognizing that the gap exists is an appropriate first step in mapping our financial strategy. The second step comes with the recognition that we will need multiple strategies to create a future that our citizens not only expect, but one they can afford. The strategies as they are developed in the following pages are based on three interrelated understanding:

- Continuous improvement will be employed to reduce the revenue/cost of services gap.
- Continuous reevaluation of existing services for appropriateness and concurrencies with real citizen’s expectation will be employed to reduce the revenue/cost of services gap.
- A balanced approach to the development of new revenues will be employed to reduce the revenue/cost of services gap.

### D. Short and Long Term Actions on Revenues

Strategic decisions include:

#### **1. Development Fees**

Council supports the general philosophy of an overall recovery target range of 50 to 85 %.

Within the various types of Development Fees, however, the range of recovery is between 50% and 100%. The range of recovery targets is based on additional benefit to the community, mandated functionality, and sensitivity to incubating small and fledgling business opportunities.

Development fees should be reviewed in each budget cycle.

#### **2. Business & Occupation Tax – Gross Receipts Tax**

Council does not support a Gross Receipts Business and Occupancy Tax.

Council believes that this type of taxation is counter productive to the goal of maintaining a positive economic climate in Redmond.

**3. Business License Fee**

Council believes the concept of a business tax/fee based on Full Time Equivalent (FTE) employees is a positive structure based on relative business size. Council will review for inflationary increases during biennial budget review.

**4. The Business Transportation Tax\***, which is assessed at the same time as the Business License Fee shall be considered and adopted concurrent with the Business License Fee.

Eligible uses of the Business Transportation Tax shall include all programs and services identified in the TIP/TFP, including maintenance of transportation infrastructure and travel options programs, as well as expenses related to traditional transportation capital investments.

The Business Transportation Tax should be increased in 2006 and reviewed for inflationary increases during each biennial budget review.

**5. Utility Taxes**

Council generally supports increasing the utility tax from 5.8% to the 6% allowed by law.

(Council understands in the future that the utility tax could be levied on the City provided utilities (water, sewer, and storm drainage). At this time, however, Council does not generally support levying a tax on City provided utilities.)

It should also be noted that Council has concerns about the regressive nature of Utility Taxes and as such maintains some reservations about this source of revenue.

**6. Property Tax – Council Authority**

Council intends that over the next six years the 1% property tax increase allowed by Initiative 747 be included in the general fund revenues for each year.

While Redmond has the ability to use its banked capacity, the majority of Council has strong reservations regarding the use of this revenue source. Banked capacity is a controversial taxing method and State legislation has been introduced to eliminate the banked capacity option. Also in keeping with the intent of Initiative 747, any increase above the 1% must be put to a vote of the people.

**7. Property Tax – Voted**

A remaining piece of the financial strategy is the option to present a levy lid increase to the Redmond voters.

\*note: The Business Transportation Tax revenues do not go to the general fund, rather the revenues help fund the Capital Improvement Program.

Council does not generally support limited duration levies, as they are contrary to the philosophy of stable revenue sources. Additionally, Council believes that should limited duration levy lift type of funding be sought, it would be inappropriate to use the revenue for longer-term on-going expense and should only be considered for expenses of limited duration.

Council wants to consider bringing a general levy lid increase to the voters to 1) provide adequate funding for defined service levels and 2) to maintain an appropriate balance between revenue sources.

### **Parks Bond Measure**

Council has identified a ballot measure to fund Parks acquisition and development as a priority in 2004. The Parks Board and Parks & Recreation Department have been working towards identifying the proper funding level to place before the voters, probably in the fall of 2006. Included would be a list of capital improvement projects to be funded with the bond measure and a separate maintenance and operation levy ballot measure.

### **Transportation Bond Measure**

Council has identified mobility of people and property as a top priority and recognizes that adequate infrastructure adds to the economic vitality of the City. The City Council reserves the option to ask voters to support a transportation bond measure to secure funding to implement the pending Transportation Master Plan.

## **8. Other User Fees**

The City will periodically review other fees and charges to ensure those costs for services have been taken into consideration in terms of its overall revenue strategy.

## **9. Additional Strategies**

Other actions may include a political strategy in response to statewide initiatives, consideration of a regular levy lid lift to stabilize property taxes, and efforts with State Legislators to address additional revenue sources available to cities.

## **Chapter IV Reserves**

### **See Appendix E for Reserve Policies**

#### **A. Philosophy**

The city recognizes its obligation to serve current needs while protecting its ability to continue basic services in the event of economic down and or severe short-term financial upheaval. The city also believes that it is both prudent and fiscally responsive to develop and maintain the financial reserves necessary to replace aging capital equipment

#### **B. Current reality**

The city has historically developed a series of Reserve policies that is in keeping with the basic philosophy of protecting the economic sustainability of city services and provides for the creation and application of reserves.

#### **C. Options**

1. Yes, we can achieve our vision in a way that maintains appropriate reserves. Reserves are a necessary component of protecting our vision.
2. Reserves are intended for specific purposes and will be used only for those purposes.
3. Maintaining the reserves is an important component of the vision. We cannot “buy” our vision with the reserves but rather the maintenance of reserves supports the long-term vision.

#### **D. Actions (short- and long-term):**

Council deliberated the proper percentage of the general fund that is set aside as reserves, deciding that 8.5% of the general fund would be held in a reserve account.

Council called for an economic contingency fund to be established in the near term to be used during economic downturns such as state or national recessions. The Public Administration and Finance Committee will make recommendations on the proper level of reserves for the storm, water, and solid waste utilities.

## **Chapter V    Priorities**

Redmond City Government acknowledges that it, along with other local, state, and federal governments, operates in an era where the citizens demand accountability for their tax payments. In the State of Washington, this manifests itself in recent changes to the law that limits taxation without a vote of the people. This property tax cap forces government to justify its expenditures to the people. As expenditures increase with inflation and growth of service area, property tax revenues increase much slower. The net result is a reduction in the quality and or change to the level of services delivered to our citizens.

There is recognition that Redmond will not be able to maintain some past and current service levels, particular in capital projects. Some service levels may have to drop while others may need to increase.

Without identifying other revenue sources, the City government must make an adaptive change to the new parameters. Just increasing revenue is not enough to thrive in this environment. With this Long-Term Financial Strategy, Redmond City government is making a cultural change to its budget and financial management environment.

The rules of the game have changed with an ever-increasing set of demands, tax limitation initiatives, unrelenting cost spirals, and dwindling resources. In order for the City to achieve its Vision, the Vision must be calibrated against the fundamental priorities of the citizenry, and the priorities then balanced against a willingness to pay.

It is sometimes difficult with our existing budget-by-cost system to prioritize levels of services but we can use existing community resources to identify the basic priorities of Redmond government. A recent city sponsored survey found citizens (87%) highly supportive of the current quality of life in Redmond. To the extent that services equate to quality of life, it is equally true that citizens are satisfied with the current level of services. In the same survey, we found that nearly two thirds of those surveyed would be willing to increase property taxes by 30 cent per 1,000 dollars of valuation. That is, a majority of citizens are willing to increase what they pay to a specific price-point in order to maintain the current level of services. While no data were reported that will allow an extrapolation to support taxes higher than 30 cent per 1,000 dollars or higher levels of service, the City Council has accepted as a current reality that revenues and services levels are generally within taxpayers expectations and that refinements are needed to continue to meet this standard. The citizens of Redmond are not demanding a higher level of services nor are they willing to greatly exceed current tax levels.

We accept that achieving the Vision will challenge the City and its citizens to grapple with the fundamental definition of service levels and that we must begin by examining current outcomes, eliminating those that no longer serve the Vision and adding those that are demanded by the Vision.

The City has identified the following priorities to build its strategic plan. These priorities serve as the long-term framework for defining service levels and outcomes.

1. Security of people and property
2. Mobility of people and goods
3. Utility services

4. Recreation opportunities
5. Sustainable & vibrant economy
6. Building Community
7. Healthy natural environment
8. Protection of Assets

### **1. Security of People and Property**

A prime reason for the creation of government is to provide for the collective security of the community. In this instance, security includes a broad definition that refers to the well being of the individual. For once the individual is basically secure they can participate more fully in the community.

The budget for this priority would expand beyond services that are associated with the Police and Fire departments. The City includes building standards, construction inspections, transportation infrastructure, human services and housing.

### **2. Mobility of People and Goods**

The provision of general infrastructure is another key reason for government's existence. In this case the City specifically single-outs transportation for two reasons 1) because the residents have identified it as a key challenge, and 2) we recognize the critical relationship between the transportation system and economic vitality..

The budget for this priority would include transportation demand management, trail maintenance, transit enhancements, as well as the more familiar road maintenance functions.

### **3. Utility Services**

Basic utilities are examples of where cities provide service to meet the needs of the community. In general, utilities address health concerns by providing clean water, protecting surface water, and removing waste (garbage and sewer).

### **4. Recreation Opportunities**

The priorities of Redmond now shift from basic needs to quality of life issues. Many surveys by the City have identified recreation and open space as a top quality of life issue.

### **5. Sustainable & Vibrant Economy**

Redmond desires a sustainable and vibrant economy so that the private sector can deliver the goods and service needed in the community. A strong sales tax base provides the opportunity to balance revenue sources. Services committed to this priority include long-range planning, business licensing, general government services, and investments in tourism.

### **6. Building Community**

Building community comes in many forms and is partially accomplished in the priorities above. The City government is a part of the community and is not community itself. To that end, the City facilitates community building to create a higher quality of life. Activities in

this area may include arts, community events, trails and neighborhood connections, and communication to the citizens.

## **7. Healthy Natural Environment**

Redmond residents appreciate the natural elements of the City. These elements include Bear Creek, Sammamish River, the mature trees, clean air, green environment, and the variety of wildlife. Protection of these resources is partially accomplished through the City's building and land use standards. Expenditures in this area would include surface water quality, critical area protection, and traffic congestion reduction efforts.

## **8. Protection of Assets**

This last priority addresses stewardship of the city's infrastructure in roads, pipes and buildings. The city owns, operates, and maintains assets valued at over \$300,000,000. Activities included in this priority would include maintenance, new construction, risk management, and record keeping.

The charts below are two examples of how the budget may be allocated. The first pie chart uses the adopted 2005/06 General Fund budget and the second relies upon the General Fund, the Special Revenue Funds and the Utility Funds.

The City has a wide range of discretion when allocating the General Fund. The Special Revenue and Utility Funds are limit to certain purposes and cannot be reallocated to other priorities. Showing only the General Fund reflects how the budget is allocated with few limits. The second chart demonstrates the range of services the City delivers.

Both charts make assumptions to allocate expenditures. To derive more accurate charts would require additional work. Appendix B shows how these charts were created and can be used as a starting point for developing the new budget framework.

Chart One

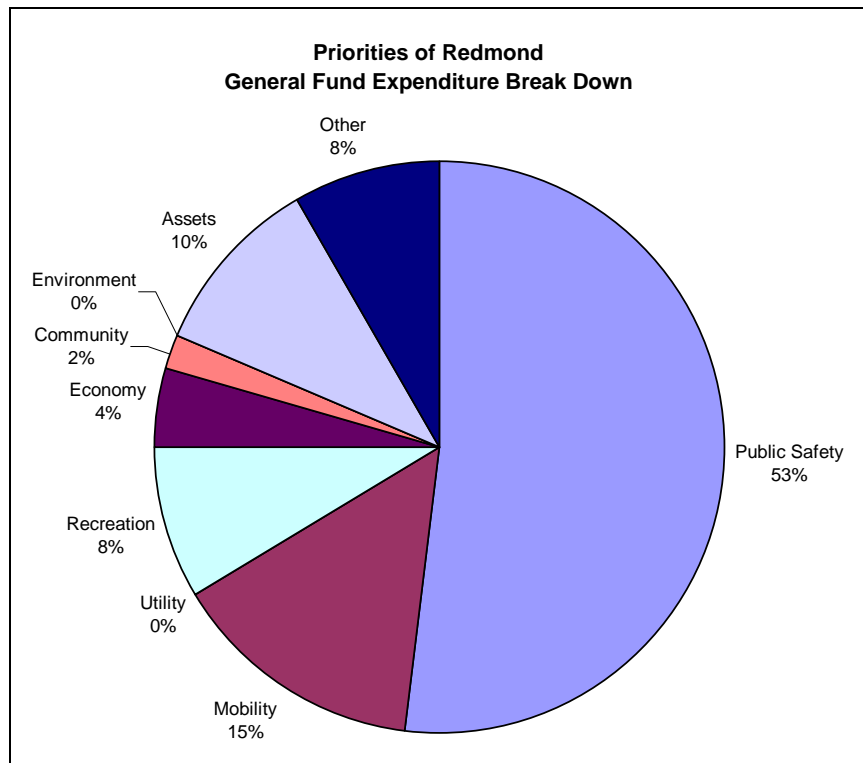
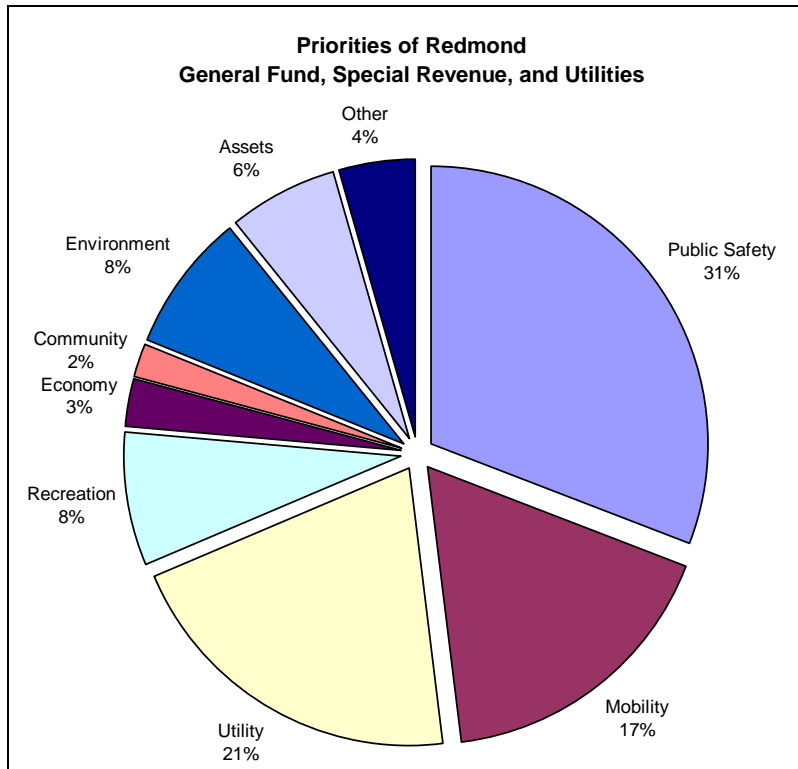


Chart Two





A. Monitoring Priorities

To make decisions about the City's future, the City will look at long-term trends to see where we have been. These trends can assist the City in making decisions about where to allocate resources to the priorities.

**Trend Indicators**

Identification of Priorities and Objective are of little value without a system for monitoring progress toward the objectives and impact of our activities on the community. With this strategic plan the city adopts a trend monitoring system that track trend both controlled and uncontrolled by the city.

Examples of trend data (See ICMA "Evaluating Financial Condition")

- Population
- Personal income/household
- Assess value – Commercial
- Assessed value – Residential
- Jobs in community
- Retail sales
- Sales tax collected
- Crime rate
- Streets, miles
- Expenditures – Street maintenance
- Expenditures – Street construction
- Parks maintenance
- Consumer attitudes

The Community Indications Program and LRFS financial indicators are both designed to track trends and progress towards goals. These programs will be integrated to better serve our ability to understand our progress.

B. Measuring Priorities

In addition to monitoring trends, the City will monitor progress by establishing objectives for each priority. These measurable objectives will assist the City in making resource allocation decision. The following are example of what those objectives could look like.

1. Security of people and property

- A) Provide a response time for medical emergencies of under 6 minutes
- B) Create fire suppression systems that limit a fire to one room of a structure

**Chapter VI Tactics**

With the implementation of the development review policy of recovering 85% of costs, Council has temporarily solved the immediate problem of an unbalanced 6-year financial plan. The additional fees should generate over \$2.1 million in revenue each year and close the \$1.7 million gap (based on July 26, 2005 data).

Next, Council turns its attention to implementing the Long-Range Financial Strategy by aligning policies and creating tools to execute the strategy.

In order to make good public policy decisions on Redmond's Long-Range Financial Strategy, decision makers recognize the importance of engaging the public in determining the appropriate level of taxation to support Redmond city government. Further, the public must be involved in determining what the priorities of Redmond city government are, recognizing that government can't be all things to all people. The level of taxation may change but it will be an informed decision made with the assistance of the public.

The Council identified the action items below to ensuring a successful implementation process.

<b>Task</b>	<b>Outcome</b>	<b>Target Date</b>
Council agreement upon LRFS	Draft Plan	October 18 <sup>th</sup>
Publish Draft LRFS for public review & comments	Gather input from public on priorities and service levels	October 18 <sup>th</sup> – November 18 <sup>th</sup>
Joint Council SLT meeting	Agreement on Draft LRFS	
"Let's Talk About Redmond"	Additional public comment	November 10 <sup>th</sup>
Council to receive additional budget gap detail	Necessary to determine immediate budget needs	November 22 <sup>nd</sup>
Council Adopts LRFS	Final Plan	November 22 <sup>nd</sup>
Adopt development review fee ordinance	Update fee schedule	November 22 <sup>nd</sup>
Identify unfunded / under funded priorities	Address immediate service deficits	By January 10 <sup>th</sup>
Identify long-term priorities and phase-in strategy	Provide direction on budget priorities over 6 years	By January 10 <sup>th</sup>
Develop a possible levy lid lift for a future ballot	Seek voter approval of priorities and willingness to pay	By January 10 <sup>th</sup>
Community meeting	Seek community input on priorities, service levels, taxation levels	By January 17 <sup>th</sup>
Update reserve policies	Align policies to match LRFS	By March 28 <sup>th</sup>
Develop trend monitoring system	Present a clear picture of the city's financial condition to elected officials, management and citizens	By March 28 <sup>th</sup>
Develop tools to measure the success of addressing priorities	Provide method for measuring new budget structure	By March 28 <sup>th</sup>
Develop a possible Parks	Address recreation priorities	End of May

**DRAFT**

Bond for a future ballot		
Deliver to Council the 2007/08 budget & a 6-year finance plan	Continue to implement LRFS	By September 26 <sup>th</sup>
Council adopts budget and financial plan	Establish biennial services levels and spending priorities	By December 5 <sup>th</sup>